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Update on New Rice Policy

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Report Highlights:
Burma's government earlier this year announced a dramatic change in its rice exporting policy. Details are beginning to emerge about the policy, yet the impact it will have on exports will not be clear until after the coming October harvest as many questions remain unanswered.

Includes PSD Changes: No
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New Rice Policy

The new rice policy announced on April 24, 2003, ending the forty-year government mandated rice procurement quota, will liberalize the domestic and international trading of rice in Burma, but only to a certain degree. The policy's stated intent is to support a free market, but the government will continue to maintain an important position in export trading by determining the amount of available exports based upon the amount of rice considered to be in surplus and by requiring a government export license. The policy was welcomed by those holding the optimistic view that finally national production of paddy (unmilled rice) will increase in quantity as well as quality as local producers participate more directly in the world market. Several articles in the Government of Burma (GOB) owned newspaper and various magazines expressed the optimistic views of paddy/rice producers in response to the new policy announcement although the implementation process, which is crucial to the realized impact, is not yet clear.

The policy outlines the rights of Burmese nationals to trade rice in both the domestic and international markets and prohibits monopolization by any one entity or organization. In short, citizens are "free" to participate in the domestic rice trade and export market. Thus, paddy or rice will be bought from farmers at prevailing market rates as determined by actual market forces. Farmers will no longer be obligated to satisfy the mandatory quota system of the Myanma Agricultural Produce Trading (MAPT), the agency that formerly was responsible for procuring rice stocks at a subsidized price nearly one-fifth of the domestic market price. The implementation of the rice policy will first be witnessed after the coming harvest of the main wet season crop in October 2003, which usually accounts for over 80 percent of the country's rice production. The Vice President of the Myanmar Rice and Paddy Association (MRPA), a private sector group, stated in the Business Tank Magazine (May issue) that he expects rice exports from the private sector not to begin until 2005. It remains unclear how long MAPT will stay involved in rice exports given this expectation.

Rice Export Target

The newly formed Myanmar Rice Trade Leading Committee (MRTLC) will determine the level of exportable rice. Export licenses will then be issued within the target amount set by MRTLC. Traders planning to export rice must apply for an export license through MRTLC and once approved, are then free to sell to foreign buyers.

Burmese rice production figures do not necessarily reflect actual supplies and should be carefully considered when determining actual production levels. Burmese paddy production numbers are thought to be heavily inflated, with the main wet season overlapping the dry season and the dry season overlapping the wet season. GOB rice statistics have not been clearly separated between the two yearly crops, producing undependable numbers. Officials in the Ministry and the Myanma Agricultural Service are aware of this discrepancy, but hesitate to assume responsibility for correcting it. Since the rice production figures have been inflated annually for a number of years, it is suspected that many GOB officials are quite unaware of the actual situation. A retired Ministry official has stated to Post personally that total feasible paddy acreage is not more than 5.6 million hectares. In a recent Cabinet meeting, a senior official was upset to learn that nearly 120,000 hectares of paddy land had been overstated in the Irrawaddy division. The impact of inflated production values affects domestic food supplies because if the export targets are based on inflated figures, shortages in domestic supply can result if exports are too aggressive. Last year border trading with Bangladesh substantially depleted the Arakan State reserves and garnered international attention as a possible, localized, manmade famine. Rice exports are one of the few foreign exchange earners for Burma, so there is great pressure to export.

Rice Export Prices

It was stated that the MRTLC will not be involved in export rice pricing, but if traders are found to be exporting rice at less than the prevailing market rate, they will be required to pay an export tax of 10 percent set by the Burmese Customs. For example, if the market price was USD 150 per metric ton (mt) and traders are caught exporting at USD 100 per mt, they will be required to pay USD 15 per mt in tax. The market rate at which Customs will assess rice exports remains unclear.

Domestic prices

Prevailing domestic prices for paddy and rice are about equal to current world market levels, effectively pricing Burma's private sector out of export trading. Currently, milled Ehmata rice, 25% broken, sells domestically for about 126,000 Kyat per mt. Domestic inflation is one of the contributing factors behind the increased domestic rice prices. The government continues to print currency to cover chronic budget deficits. Speculators forecast that paddy and rice prices will soften during the coming harvest since the MAPT procurement will not take place as in the past and that rice will flow into the domestic market. It is estimated MAPT took approximately 12 percent of the main wet season crop in previous years through the "obligated" quota requirement, where each farmer was obligated to sell a certain amount of paddy to MAPT at a fixed price. This rice was redistributed by the GOB to the military and to government employees ("specified forces") and was the source of Burma's rice exports before the policy change. In the June issue of Dana (Wealth), a business magazine published by the private sector, U Aung Than Oo, President of MRPA, stated that, assuming if the yield per acre of paddy is 1.23 mt, previously the farmers (each year) had to sell to MAPT 0.25 mt per acre produced, as the price of Kyat 18,504 per mt; the remaining 0.98 mt was sold at the prevailing market rate of Kyat 77,914 per mt. The total earnings the farmers got for the 1.23 mt produced would have amounted to Kyat 80,982. Under the new rice policy, farmers will be able to sell all of their 1.23 mt at a prevailing market rate of Kyat 77,914 per mt. The total earnings the farmer received will amount to Kyat 95,834. Assuming that paddy prices remain unchanged, farmers should be able to sell their paddy at a profit even if paddy prices decreased by up to 14,609 per mt, since the farmer is getting more cash than previously. But, if the domestic prices of paddy fall more than 20 percent, the farmers will not be able to cover their production costs. The new rice policy contains no guidelines for government or MRTLC intervention if prices fall below production costs.

Volume of trade in the domestic market

The President of MRPA estimated that national production of paddy in 2003 will be 24.64 million mt and per capita consumption of rice about 313 kilos (equivalent to 198 kilos of rice) leading to a total consumption of about 16.28 million mt of paddy to feed Burma's 52 million consumers. Deducting seeds and wastage of about 0.10 mt/acre for 15 million acres amounts to nearly 1.5 million mt of paddy, leaving an exportable surplus of 3.36 million mt of rice. Nevertheless, the President said he expects the exportable surplus to be only one million mt since rice is also used for making rice noodles, vermicelli and snacks.

Prevailing domestic market situation and the constraint on exports.

MRPA calculated that if the world market price for Burma's Ehmata 25% is USD 140 per mt, including a 10% GOB export tax, the price of Ehmata 25% without the tax would be USD 126 per mt. If the exchange rate is Kyat 1000 = 1 USD, the cost of one ton of rice is Kyat 126,000. In that case, a 50 kg bag of rice will cost about Kyat 6,300 at the world market price. For a trader to be able to have a margin of profit at the current world price, the domestic price of a 50 kg bag of rice should be below Kyat 5,700. Currently in the Burmese domestic market the prevailing price of a 50 kg bag of rice is equal to the world market price of Kyat 6,300. If a rice trader adds 10 percent for the GOB export tax, the total price of export will be Kyat 6,930 - 630 Kyat above the world market price. World rice prices are determined by the origin of the rice. Thai 25% fetches about USD 175 per mt, with Vietnam 25% getting about USD 161 per mt. Since Burma's Ehmata 25% gets USD 140 +/- per mt, it will be exceedingly difficult under the current domestic price structure for Burma to have rice exports.

Agricultural Credit/Financing

Agricultural credit has not been a subject of recent discussion by the GOB. There is a hope that farmers will increase production in response to the market liberalization, but money for inputs is scarce. At present, the agricultural banks are unable to meet the existing demand for agricultural loans. Many private banks are in the throes of a financial crisis and the government prohibits new lending by the private sector. Furthermore, farmers cannot use their land as loan collateral as the land is owned by the State. As the credit situation continues to deteriorate, the agriculture sector will begin to search for alternative financing. Funds are available through the traditional village moneylender system, but at a steep price many farmers cannot afford.

Procurement

The private sector traders will purchase paddy for export from farmers at the prevailing domestic market rate. But the GOB remains heavily involved in paddy and rice procurement. It was learned that MAPT has approached several traders to have them request that the GOB permit MAPT to continue with business as usual. MAPT apparently lacks confidence in the private sector to successfully export rice. Also, according to the new rice policy, the rice traders, through newly formed rice trading associations, will have to resell rice for the "specified forces" to MAPT at the same price they purchased it at. The MRTLC will fix the amount of rice and delivery points for these sales at a future point in time. This procurement schedule will vary from year to year as food needs will change. However, a rising issue that is gaining attention is the government's ability (or lack of) to continue purchasing rice for military and government personnel and their families at a market price far greater than before as a result of the new rice policy and market liberalization.

Lastly, if rice exporting develops into a lucrative business, the private traders are fearful that government agencies will again become involved due to the severe economic situation faced by the GOB. They are afraid the GOB will decide to step back in and push them back out of the business.

End of Report.